EXHIBIT B

CONSOLIDATED FINANCIAL STATEMENTS

VIZIO, Inc.
Years Ended December 31, 2008 and 2007
With Report of Independent Auditors

VIZIO, Inc.

Consolidated Financial Statements

Years Ended December 31, 2008 and 2007

Contents

ERNST & YOUNG
Ernst & Young LLP
Suite 1000
18111 Von Karman Avenue
Irvine, California 92612-1007
Tel: +1 949 794 2300
Fax: +1 949 437 0590
www.ey.com

Report of Independent Auditors

Board of Directors and Shareholders
VIZIO, Inc.

We have audited the accompanying consolidated balance sheets of VIZIO, Inc. (the Company) as of December 31, 2008 and 2007, and the related consolidated statements of income, shareholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of VIZIO, Inc. as of December 31, 2008 and 2007, and the consolidated results of its operations and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Ernst + Young LLP

March 31, 2009

VIZIO, Inc.

Consolidated Balance Sheets

	December 31 2008	December 31 2007
Assets		
Current assets:		
Cash and cash equivalents	$ **42,466,014**	$ 24,093,591
Investments	**9,291,070**	–
Restricted certificates of deposit	**2,625,000**	12,429,348
Accounts receivable, net	**369,297,429**	437,122,756
Other receivables due from related party	**32,794,350**	13,910,658
Inventories, net	**9,947,652**	11,647,232
Other current assets	**5,551,359**	2,817,132
Income tax receivable	**–**	1,269,330
Deferred income taxes	**2,857,911**	267,747
Total current assets	**474,830,785**	503,557,794
Property and equipment, net	**642,530**	580,991
Intangible asset	**125,000**	125,000
Investment in related party	**500,000**	500,000
Other receivables due from related party	**4,331,885**	3,099,501
Other assets	**61,500**	281,759
Deferred income taxes	**221,566**	210,690
Total assets	$ **480,713,266**	$ 508,355,735
Liabilities and shareholders' equity		
Current liabilities:		
Accounts payable due to related party	$ **345,773,295**	$ 451,647,794
Accounts payable	**65,060,008**	23,428,539
Accrued expenses	**12,138,161**	6,959,103
Current portion of accrued royalties	**23,270,063**	9,941,405
Income tax payable	**6,114,492**	–
Total current liabilities	**452,356,019**	491,976,841
Accrued royalties, net of current portion	**4,421,753**	3,319,760
Other long-term liabilities	**120,055**	–
Commitment and contingencies *(Note 14)*		
Shareholders' equity;		
Preferred stock, no par value; 25,000,000 shares authorized; 250,000 shares designated as Series A convertible preferred stock; 134,736 shares of Series A shares issued and outstanding	**2,000,000**	2,000,000
Common stock, no par value; 75,000,000 shares authorized; 640,000 shares issued and outstanding at 2008 and 2007	**1,528,041**	1,102,041
Retained earnings	**20,287,398**	9,957,093
Total shareholders' equity	**23,815,439**	13,059,134
Total liabilities and shareholders' equity	$ **480,713,266**	$ 508,355,735

See accompanying notes.

VIZIO, Inc.

Consolidated Statements of Income

	Year Ended December 31 2008	2007
Net sales	**$ 2,006,253,644**	$ 1,929,180,560
Cost of goods sold	**1,916,100,493**	1,844,549,807
Gross profit	**90,153,151**	84,630,753
Operating expenses	**71,866,229**	72,948,012
Operating income	**18,286,922**	11,682,741
Other income (expense):		
Interest income	**1,130,610**	627,707
Other (expense) income, net	**(1,509,568)**	329,255
Net non-operating income	**(378,958)**	956,962
Income before income taxes	**17,907,964**	12,639,703
Income tax expense	**7,577,659**	5,080,161
Net income	**$ 10,330,305**	$ 7,559,542

See accompanying notes.

VIZIO, Inc.

Statements of Shareholders' Equity

	Preferred Stock		Common Stock		Retained	
	Shares	Par Value	Shares	Par Value	Earnings	Total
Balance at December 31, 2006	134,736	$ 2,000,000	640,000	$ 600,000	$ 2,397,551	$ 4,997,551
Stock-based compensation expense	–	–	–	502,041	–	502,041
Net income	–	–	–	–	7,559,542	7,559,542
Balance at December 31, 2007	134,736	2,000,000	640,000	1,102,041	9,957,093	13,059,134
Stock-based compensation expense	–	–	–	**426,000**	–	**426,000**
Net income	–	–	–	–	**10,330,305**	**10,330,305**
Balance at December 31, 2008	**134,736**	**$ 2,000,000**	**640,000**	**$ 1,528,041**	**$ 20,287,398**	**$ 23,815,439**

See accompanying notes.

VIZIO, Inc.

Consolidated Statements of Cash Flows

	Year Ended December 31 2008	2007
Operating activities		
Net income	**$ 10,330,305**	$ 7,559,542
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	**655,270**	255,992
Deferred income taxes	**(2,601,040)**	(226,421)
Stock compensation expense	**426,000**	502,041
Changes in operating assets and liabilities:		
Accounts receivable	**67,825,327**	(257,515,426)
Other receivables due from related party	**(20,116,076)**	(17,010,159)
Inventories	**1,699,580**	(11,379,548)
Other current assets	**(2,734,227)**	–
Other assets	**220,259**	(1,535,794)
Accounts payable due to related party	**(105,874,499)**	266,721,819
Accounts payable	**41,631,469**	23,428,539
Accrued expenses	**5,179,058**	3,232,147
Accrued royalties	**14,430,651**	13,261,165
Income tax (receivable) / payable	**7,383,822**	(1,753,225)
Other long-term liabilities	**120,055**	–
Net cash provided by operating activities	**18,575,954**	25,540,672
Investing activities		
Purchases of property and equipment	**(716,809)**	(477,940)
Purchase of minority interest in related party	**–**	(500,000)
Maturity (purchase) of restricted certificates of deposit	**9,804,348**	(9,868,308)
Purchase of investments	**(9,291,070)**	–
Net cash used for investing activities	**(203,531)**	(10,846,248)
Net increase in cash and cash equivalents	**18,372,423**	14,694,424
Cash and cash equivalents at beginning of year	**24,093,591**	9,399,167
Cash and cash equivalents at end of year	**$ 42,466,014**	$ 24,093,591
Supplemental disclosures of cash flow information		
Cash paid during the year for income taxes	**$ 2,799,285**	$ 7,063,000

See accompanying notes.

1. Organization and Nature of Business

VIZIO, Inc. (the Company) was incorporated in the State of California on October 21, 2002 and commenced operations in January 2003. The Company was originally incorporated as V, Inc. and changed its name to VIZIO, Inc. in March 2007. The Company is a wholesale distributor of plasma, LCD HD displays, home entertainment units, and accessories to major retailers located throughout the United States and Canada.

Additionally, the Company acquired VIZIO International, Ltd. (VIZIO International), a company incorporated in Samoa during 2004. For the past couple of years, VIZIO International has been a non-active subsidiary of the Company, which maintains an interest bearing bank account outside of the United States.

Since its inception, the Company has purchased a significant amount of its products from one supplier, Amtran Technologies, Co. Ltd. (Amtran). This supplier holds a non-controlling ownership interest in the Company through Amtran's ownership of the Company's common stock and Series A preferred stock.

2. Summary of Significant Accounting Policies

Basis of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary (VIZIO International). All significant intercompany transactions and balances have been eliminated in consolidation.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect certain amounts reported in the consolidated financial statements and accompanying notes. Actual results may differ from those estimates and assumptions.

Cash and Cash Equivalents

The Company considers all highly liquid financial instruments with an original maturity of three months or less when purchased to be cash equivalents.

2. Summary of Significant Accounting Policies (continued)

Restricted Certificates of Deposit

Restricted certificates of deposit represent investments in time certificate of deposits which have an original maturity date approximating six months from date of purchase.

Investments

The Company's investments are classified as available-for-sale and are carried at fair value based on quoted market prices, with any unrealized gains and losses reported in other comprehensive income (loss) within shareholders' equity. Any realized gains and losses and any declines in value that are judged to be other-than-temporary are included in other income (expense).

Investments as of December 31, 2008 were comprised of corporate bonds with maturities of less than one year.

Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable consist of amounts due to the Company from sales arrangements executed in its normal business activities. The Company records accounts receivable net of the allowance for doubtful accounts. The Company extends credit to its customers and mitigates a portion of the credit risk through credit insurance, bank guarantees, and prepayments. Credit losses, if any, are accrued for based on management's evaluation of historical collection experience and an evaluation of current industry trends and economic conditions. Past due balances are assessed by management and balances are written off when the customer's financial condition no longer warrants pursuit of collections. Although the Company expects to collect amounts due, actual collections may differ from estimated amounts.

Additionally, the Company has a security agreement that has been executed under the provisions of the Uniform Commercial Code by a supplier which has a lien on its respective accounts receivable generated through the sale of manufactured product sold by the Company.

Concentrations of Credit Risk

Financial instruments that potentially subject the Company to significant concentrations of credit risk consist principally of accounts receivable and cash in banks. As of December 31, 2008 and 2007, the cash deposits in banks, including restricted certificates of deposit, exceeding the amount insured by FDIC were approximately $273,793 and $35,654,000, respectively.

2. Summary of Significant Accounting Policies (continued)

Fair Value of Financial Instruments

The Company's cash and cash equivalents, accounts receivable, short-term investments, restricted certificate of deposit, accounts payable and accrued expenses approximate fair value due to the short maturity of these items.

Inventories

Inventories are stated at the lower of cost or market using a standard cost methodology.

Property and Equipment

Property and equipment is recorded at cost and depreciated using the straight-line method over the estimated useful lives of the assets ranging from three to seven years. Leasehold improvements are amortized using the straight-line method over the lesser of the lease term or the estimated useful life of the assets. Maintenance and repairs are expensed as incurred.

Impairment of Long-Lived Assets

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be fully recoverable. These events or changes in circumstances may include a significant deterioration of operating results, changes in business plans, or changes in anticipated future cash flows. If an impairment indicator is present, the Company evaluates recoverability by a comparison of the carrying amount of the assets to future undiscounted net cash flows expected to be generated by the assets. If the assets are impaired, the impairment recognized is measured by the amount by which the carrying amount exceeds the fair value of the assets. Fair value is generally determined by estimates of discounted cash flows. The discount rate used in any estimate of discounted cash flows would be the rate required for a similar investment of like risk.

Revenue Recognition

The Company derives revenue principally from the sale of plasma, LCD HD displays and home entertainment units. Revenue from sales of products to customers is recognized when (i) persuasive evidence of an arrangement exists, (ii) delivery of the product has occurred and there are no remaining performance obligations, (iii) the price per unit is fixed or determinable, and (iv) collection of the unit price is reasonably assured. Sales to certain customers are under terms that allow these customers to receive price protection based on future price reductions and may provide for limited rights of returns, discounts and advertising credits.

2. Summary of Significant Accounting Policies (continued)

The Company provides an allowance for discounts, returns and price protection based on historical experience at the time of the sale. All revenue is recorded net of returns, discounts and allowance.

Shipping terms on sales of products are FOB shipping point or FOB destination depending upon the related contractual arrangement.

The Company recognizes revenue related to its product sales on a gross basis after evaluating the criteria as defined in Emerging Issue Task Force No. 99-19, *Reporting Revenue Gross as a Principal versus Net as an Agent,* as the Company is the primary obligor and is responsible for negotiating the terms of the sales transactions and ensuring that the product meets the customer expectations. Additionally, the Company is responsible for determining the product design and specifications, as well as negotiating all pricing arrangements including various rebates and incentives for the televisions. Furthermore, the Company is responsible for negotiating the credit terms and collecting the cash from the customers.

Shipping and Handling Costs

All shipping and handling costs related to purchases of inventory are included in the purchase price of each product negotiated with the supplier and therefore recorded inventory. All shipping and handling costs charged to customers are included in sales. The related freight costs are recorded as operating expense and were $12,089,283 and $20,651,248 for the years ended December 31, 2008 and 2007, respectively.

Vendor Allowances

The Company periodically grants certain vendor allowances, such as rebates and price protection, to its customers on its products. In certain instances, the Company will, in turn, negotiate with its supplier for reimbursement of the vendor allowances so that the vendor is responsible for absorbing the rebates and price protection allowances. The Company's procedures for estimating amounts accrue as vendor allowances are based upon historical experience and management judgment. The Company accrues for these sales incentives at the time of sale and the accrual are presented on the consolidated balance sheet as accrued liabilities and recorded as a reduction of cost of sales.

Additionally, the Company maintains cooperative advertising arrangements with several of its customers which provide for television commercials, newspaper advertisements, and banner advertisements on the customers' website. The Company has determined the classification of the advertising cooperative arrangements as part of operating expenses on the statement of income

2. Summary of Significant Accounting Policies (continued)

Vendor Allowances (continued)

after consideration of the guidance in Emerging Issue Task Force No. 01-9, *Accounting for Consideration Given by a Vendor to a Customer (Including a Reseller of the Vendor's Products).*

Research and Development Costs

All research and development costs are expensed as incurred. Research and development costs were \$2,228,000 and \$579,000 for the years ended December 31, 2008 and 2007, respectively.

Advertising Costs

The Company expenses the costs of advertising as operating expenses when incurred. Advertising costs were \$26,687,000 and \$27,170,000 for the years ended December 31, 2008 and 2007, respectively.

Product Warranty

All products have a one or two year limited warranty against manufacturing defects and workmanship. Although the Company is principally responsible for servicing warranty claims, substantially all product warranty expenses are reimbursed by the suppliers under the standard product supply agreements. Product warranty expenses not reimbursed by the suppliers are recorded as operating expenses when incurred.

Income Taxes

The Company uses the liability method when accounting for income taxes. Under this method, deferred income tax assets and liabilities are determined based on differences between financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. Valuation allowances are provided against tax assets when it is determined that it is more likely than not that the assets will not be realized.

2. Summary of Significant Accounting Policies (continued)

Stock-Based Compensation

The Company applies the provisions of Statement of Financial Accounting Standard (SFAS) No. 123 (revised 2004), *Share-Based Payment* (Statement 123R), to all share-based payments. Statement 123R requires all share-based payments to employees, including grants of employee stock options, restricted stock units and employee stock purchase rights, to be recognized in the financial statements based on their respective grant date fair values and does not allow the previously permitted pro forma disclosure-only method as an alternative to financial statement recognition. Statement 123R also requires the benefits of tax deductions in excess of recognized compensation cost be reported as a financing cash flow, rather than as an operating cash flow as required under previous literature.

The Company is required to apply Statement 123R prospectively and stock option grants and other share-based awards are accounted for based on the fair value method. Under Statement 123R, the Company uses the Black-Scholes option pricing model for valuation of stock-based awards. The determination of the fair value of stock-based awards on the date of grant using an option pricing model is affected by stock price as well as assumptions regarding a number of highly complex and subjective variables. These variables include, but are not limited to, the expected life of the award, expected stock price, volatility over the term of the award and projected exercise behaviors. Although the fair value of stock-based awards is determined in accordance with Statement 123R, the assumptions used in calculating fair value of stock-based awards and the Black-Scholes option pricing model are highly subjective, and other reasonable assumptions could provide differing results. As a result, if factors change and different assumptions are used, stock-based compensation expense could be materially different in the future.

For the years ended December 31, 2008 and 2007, the expected life of each award granted was determined using the simplified method as defined by the Securities and Exchange Commission in Staff Accounting Bulletin 104 Topic 14, *Share-Based Payment* (SAB 107) due to the Company having insufficient history of option exercise and forfeiture activity. Expected volatility is based on the volatility of publicly traded companies in similar industries that have similar vesting and contractual terms. The risk-free interest rate is based on the implied yield currently available on U.S. Treasury issues with terms approximately equal to the expected life of the option. The Company has not paid dividends in the past and does not intend to for the foreseeable future; therefore, the Company used an expected dividend yield of zero. The following provides information on the assumptions used for stock options granted during the years ended as follows:

2. Summary of Significant Accounting Policies (continued)

	December 31	
	2008	**2007**
Volatility factor	**44.00%**	44.00%
Expected term	**6.25 years**	5.85 years
Dividend yield	**–**	–
Risk-free interest rate	**3.60%**	4.36%
Forfeiture rate	**14.30%**	14.30%

Stock compensation cost of $426,000 and $502,041 was recognized by the Company in the statement of income as operating expenses for the years ended December 31, 2008 and 2007, respectively. As of December 31, 2008 and 2007, the Company had $1,331,539 and $72,090, respectively, of unrecognized compensation costs related to share-based payments, which it expects to recognize over the weighted-average remaining life of the stock options of approximately 3.15 years.

Fair Value Measurements

The Company adopted Statement of Financial Accounting Standards (SFAS) No. 157, *Fair Value Measurements*, on January 1, 2008. This standard defines fair value, establishes a framework for measuring fair value and expands disclosure requirements about fair value measurements. SFAS No. 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. SFAS No. 157 applies to all accounting pronouncements that require fair value measurements. The fair value hierarchy prescribed by SFAS No. 157 contains three levels as follows:

- Level 1 — Inputs to the valuation based upon quoted prices (unadjusted) for identical assets or liabilities
- Level 2 — Inputs to the valuation include quoted prices in either markets that are not active, or in active markets for similar assets or liabilities, inputs other than quoted prices that are observable, and inputs that are derived principally from or corroborated by observable market data
- Level 3 — Inputs to the valuation that are unobservable inputs for the asset or liability

2. Summary of Significant Accounting Policies (continued)

The Company's financial assets measured at fair value were as follows at December 31, 2008:

	Fair Value Measurement Using			
Description	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**	**Total**
Cash and cash equivalents	$ 42,466,014	$ –	$ –	$ 42,466,014
Investments	9,291,070	–	–	9,291,070
Total	$ 51,757,084	$ –	$ –	$ 51,757,084

New Accounting Pronouncements

In July 2006, the Financial Accounting Standards Board (FASB) issued FIN 48, *Accounting for Uncertainty in Income Taxes — An Interpretation of FASB Statement No. 109*, or (FIN 48). FIN 48 provides detailed guidance for the financial statement recognition, measurement and disclosure of uncertain tax positions recognized in an enterprise's financial statements. Tax positions must meet a more-likely-than-not recognition threshold at the effective date to be recognized upon the adoption of FIN 48 and in subsequent periods. FIN 48 will be effective for the Company on January 1, 2009, and the provisions of FIN 48 will be applied to all tax positions upon its initial adoption. The cumulative effect of applying the provisions of FIN 48 will be reported as an adjustment to the opening balance of retained earnings for that fiscal year. The Company is currently evaluating the application of FIN 48 to its financial statements and has not yet determined its impact.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities — Including an amendment of FASB Statement No. 115* (Statement 159). Statement 159 allows companies to elect to measure certain assets and liabilities at fair value and is effective for fiscal years beginning after November 15, 2007. The Company has elected not to adopt the provisions of Statement 159.

In December 2007, the FASB issued SFAS No. 141 (Revised 2007), *Business Combinations* (Statement 141R). Statement 141R establishes principles and requirements for the manner in which the acquirer of a business recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree. Statement 141R also provides guidance for recognizing and measuring the goodwill acquired in the business combination and disclosure requirements on the nature and financial

2. Summary of Significant Accounting Policies (continued)

effects of the business combination. Statement 141R applies to business combinations that are consummated on or after the beginning of the first annual reporting period beginning on or after December 15, 2008.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities* (Statement 161). This standard is intended to improve financial reporting about derivative instruments and hedging activities by requiring enhanced disclosures to enable investors to better understand their effects on an entity's financial position, financial performance, and cash flows. It is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. The Company is evaluating the impact of the provisions of Statement 161, but does not believe that it will have a material impact on its financial position or results of operations.

In April 2008, the FASB issued Staff Position No. 142-3, *Determination of the Useful Life of Intangible Assets* (FSP 42-3). FSP 142-3 amends the factors to be considered in assumptions used to determine the useful lives of recognized intangible assets recognized under SFAS 142. The new guidance applies to intangible assets with contractual lives that are acquired individually or with a group of assets as well as those assets acquired in a business combination. The new guidance is effective for fiscal years beginning after December 15, 2008 and interim periods. The Company does not expect adoption of FSP 142-3 to have a significant impact on its financial statements.

In May 2008, the FASB issued FASB SFAS No. 162, *The Hierarchy of Generally Accepted Accounting Principles* (Statement 162). This new standard is intended to improve financial reporting by identifying a consistent framework, or hierarchy, for selecting accounting principles to be used in preparing financial statements that are presented in conformity with U.S. generally accepted accounting principles (GAAP). It is effective beginning November 15, 2008. The Company has not completed its review and assessment of the impact of adoption of Statement 162.

3. Significant Supplier and Related Party

For the years ended December 31, 2008 and 2007, the Company purchased a significant amount of its product inventory from Amtran, a supplier and related party, under a standard product supply agreement. The product supply agreement outlines the terms of product delivery as well as distribution and marketing rights that the Company has upon the purchase of inventory for distribution throughout the United States. Under the agreement, Amtran is responsible for packaging the inventory with the Company's labeling as well as owner's manual, warranty information and other supplemental branding information. All product pricing is negotiated and

3. Significant Supplier and Related Party (continued)

mutually agreed upon for each product item prior to the issuance of a purchase order or shipment of product. The Company is responsible for all customer services including minor technical assistance and phone support. The Company retains the right to inspect all product in accordance with pre-determined quality standards prior to product acceptance. Once all aspects of the product are agreed upon, Amtran is then responsible for transporting the product to its warehouse located in the United States. Although the Company is considered the importer of goods, Amtran is required to insure the product as it is shipped to the warehouse. Typically, the title and risk of loss of the product passes to the Company upon shipment from the suppliers' warehouse to the major retailers. Furthermore, the product supply agreement stipulates that Amtran will (i) reimburse the Company for any price protection or sales concessions negotiated between the Company and the major retailers on product purchased from Amtran, and (ii) indemnify the Company against all liability resulting from valid and enforceable patent infringement with regard to product purchased under the agreement except if such infringement arises out of the Company's modification or misuse of the product.

Approximately 88% and 95% of the Company's inventory purchases for the years ended December 31, 2008 and 2007, respectively, were from Amtran and approximately 85% and 93% of accounts payable at December 31, 2008 and 2007, respectively, were due to Amtran. The Company also has recorded an other receivable from related party of $32,794,350 due from Amtran. This other receivable balance is attributable to price protection and sales concessions as well as accrued royalties due in connection with the settlement of certain patent infringement cases.

Additionally, Amtran holds a 20% non-controlling ownership interest in the Company through common stock and Series A preferred stock. Amtran does not have any significant voting privileges nor does it hold any seats on the Board of Directors that would enable it to dictate any strategic or operating decisions of the Company.

Accordingly, the Company is currently dependent upon Amtran as a supplier of products. Although the Company believes that it can obtain products from other sources, the loss of this supplier could have a material impact on the Company's financial condition and results of operations as the products that are being purchased from Amtran may not be available on the same terms from another supplier.

In addition to Amtran, the Company has one other supplier, which began supplying products to Vizio in May 2008. Approximately 2.4% of the Company's inventory purchases for the year ended December 31, 2008 were from this supplier and approximately 10.7%

3. Significant Supplier and Related Party (continued)

of accounts payable at December 31, 2008 was due to this supplier. The Company also has recorded an other receivable from this supplier for $1,094,696. This other receivable balance is attributable to sales concessions as well as accrued royalties due in connection with the settlement of certain patent infringement cases. This other significant supplier does not have any ownership interest in the Company.

4. Significant Customers

The following customers account for more than 10% of revenue or 10% of accounts receivable as of December 31:

	2008	2007
Revenue:		
Customer A	**29%**	34%
Customer B	**15%**	25%
Customer C	**43%**	21%
Accounts receivable:		
Customer A	**48%**	15%
Customer B	**25%**	23%
Customer C	**15%**	39%

5. Accounts Receivable

Accounts receivable consists of the following at December 31:

	2008	2007
Accounts receivable	**$ 370,196,910**	$ 437,201,610
Less: allowance for doubtful accounts	**(899,481)**	(78,854)
	$ 369,297,429	$ 437,122,756

During 2008, one of the Company's customers filed for Chapter 11 bankruptcy protection. As the Company maintains creditor insurance over its accounts receivable balance, only the uninsured portion of the accounts receivable has been considered in the estimate of the allowance for doubtful accounts as of December 31, 2008.

6. Inventories

Inventories consist of the following at December 31:

	2008	2007
Inventories	**$ 9,961,396**	$ 11,660,976
Less: reserve for excess and obsolescence	**(13,744)**	(13,744)
	$ 9,947,652	$ 11,647,232

In-transit inventory consists of $9,498,029 or 95% of the total inventory balance as of December 31, 2008.

7. Restricted Certificates of Deposit

The Company imports merchandise on behalf of certain suppliers that request a commercial bank to issue a standby letter of credit in favor of an insurance company in connection with the shipment of its products under the oversight of the U.S. Customs and Border Protection. In 2008, the letter of credit is collateralized by a certificate of deposit in the amount of $2,400,000 with an interest rate of 2.8% and by a certificate of deposit in the amount of $225,000 with an interest rate of 2.9%.

8. Property and Equipment

Property and equipment consists of the following at December 31:

	2008	2007
Machinery and equipment	**$ 109,895**	$ 88,751
Furniture and fixtures	**120,045**	209,385
Computer and software	**1,206,062**	852,259
	1,436,002	1,150,395
Less: accumulated depreciation	**(793,472)**	(569,404)
Property and equipment, net	**$ 642,530**	$ 580,991

Depreciation expense was $655,270 and $255,992 for the years ended December 31, 2008 and 2007, respectively.

9. Convertible Preferred Stock

The Company is authorized to issue 25,000,000 shares of convertible preferred stock with no par value, of which 250,000 shares are designated as Series A convertible preferred stock. The Series A convertible preferred stock was issued with the following terms:

Voting Rights: The holders of convertible preferred stock have no voting rights and are not entitled to participate in the election of members of the Company's Board of Directors.

Dividend Rate: The holders of Series A convertible preferred stock are entitled to receive cumulative dividends, in preference to any dividends on the Company's outstanding common stock at the per annum rate of 6% of the stated value when and as declared by the Board of Directors. As of December 31, 2008 and 2007, cumulative dividends on the Series A convertible preferred stock were $637,000 and $487,000, respectively. There have been no dividends declared by the Board of Directors or accrued as of December 31, 2008.

Conversion Feature: Each share of Series A convertible preferred stock is automatically convertible into shares of common stock upon the sale of the Company's common stock in a underwritten public offering resulting in aggregate net proceeds of at least $15 million and pursuant to a registration statement under the Securities Act of 1933 or on any recognized foreign exchange. Each share of Series A convertible preferred stock shall be converted by dividing the initial issuance price by the conversion price upon the commencement of a transaction as defined above. The conversion price shall be the initial issuance price as adjusted for any anti-dilution provisions as defined in the articles of incorporation.

Liquidation Preference: The holders of the preferred stock are entitled to receive, in preference to the holders of the common stock, a per share amount equal of $14.84 plus all declared but unpaid dividends on such shares. After the holders of the Series A convertible preferred stock receive their full liquidation preferences, only then shall all other shareholders be entitled to share in the remaining proceeds based on the number of shares held. Additionally, after the payment of the liquidation preferences, any remaining assets of the Company shall be distributed ratably to the holders of the common stock and preferred stock.

10. Stock Option Plan

The Company's Board of Directors adopted the 2007 Incentive Award Plan (Plan), which provides for the granting of qualified and nonqualified stock options to purchase an aggregate of up to 116,210 shares of common stock to eligible employees and directors of the Company. The primary purpose of the Plan is to enhance the Company's ability to attract, motivate and retain the services of qualified employees, officers, and directors. Any stock options or stock appreciation rights granted under the Plan will have a term of not more than ten years and the

10. Stock Option Plan (continued)

vesting of the awards will be at the discretion of the Board of Directors but is not expected to exceed four years. All awards are subject to forfeiture within 90 days if employment or other services terminates prior to the vesting of the awards.

In 2008 and 2007, the Company granted options to purchase 23,962 and 54,232, respectively, shares of common stock at an exercise price of $116 and $30 per share, respectively. These stock options vest over a period ranging from one to four years and with a contractual life of ten years.

As of December 31, 2008, 70,447 stock options were outstanding and 47,454 stock options were exercisable. The outstanding stock options in 2008 have a weighted-average fair value of $37.26 per share and a weighted-average remaining contractual life of 8.8 years.

As of December 31, 2007, 46,485 stock options were outstanding and 40,674 stock options were exercisable. The outstanding stock options in 2007 have a weighted-average fair value of $14.40 per share and a weighted-average remaining contractual life of 9.7 years. During 2007, a former employee forfeited 7,747 stock options.

A summary of the status of the Company's stock option plan as of December 31, 2008 and 2007, and the changes during the periods ended on those dates is presented below:

	Weighted-Average Exercise Price	**Number of Options**
Outstanding at December 31, 2006		
Granted	$ 30.00	54,232
Exercised	–	–
Forfeited	30.00	(7,747)
Outstanding at December 31, 2007	30.00	46,485
Granted	**116.01**	**23,962**
Exercised	**–**	**–**
Forfeited	–	–
Outstanding at December 31, 2008	**$ 59.26**	**70,447**

11. Shares Reserved for Future Issuance

At December 31, 2008, the Company has reserved shares of common stock for future issuance as follows:

Conversion of convertible preferred stock	134,736
Exercise of stock options	70,447
Stock options reserved by the Board of Directors	45,763
	250,946

12. Income Taxes

The components of income tax expense consist of the following at December 31:

	2008	2007
Current:		
Federal	**$ 7,887,183**	$ 4,134,930
State	**2,291,517**	1,171,653
	10,178,700	5,306,583
Deferred:		
Federal	**(1,995,361)**	(181,631)
State	**(605,680)**	(44,791)
	(2,601,041)	(226,422)
Net income tax expense	**$ 7,557,659**	$ 5,080,161

The tax effects of temporary differences which give rise to significant portions of deferred tax assets are as follows as of December 31:

	2008	2007
Deferred tax assets:		
Accrued intellectual property	**$1,694,888**	$ –
Accrued marketing	**529,750**	–
Allowance for doubtful accounts	**397,083**	31,410
Stock-based compensation	**273,592**	200,013
Allowance for accounts receivable	**231,145**	–
Allowance for sales returns	**–**	179,255
Accrued commissions	**85,827**	–
Accrued vacation	**68,453**	46,064
Deferred rent	**50,720**	28,337
Others	**51,172**	11,012
Deferred tax assets	**$3,382,630**	496,091

12. Income Taxes (continued)

	2008	2007
Deferred tax liabilities:		
Depreciation and amortization	**(52,026)**	(17,654)
State deferred taxes	**(251,127)**	–
Net deferred tax assets	**$3,079,477**	$ 478,437

The Company has determined that it is more likely than not that the net deferred tax asset will be realized. Accordingly, no valuation allowance has been established as of December 31, 2008.

The income tax provision differs from the amount obtained by applying the statutory tax rate as follows as of December 31:

	2008	2007
Income tax provision at statutory rate	**$ 6,267,787**	$ 4,298,043
State income tax (net of federal benefit)	**1,095,794**	743,728
Other	**214,078**	38,390
	$ 7,577,659	$ 5,080,161

13. Defined Contribution Retirement Plan

The Company maintains a 401(k) defined contribution plan allowing eligible U.S.-based employees to contribute up to an annual maximum amount as set periodically by the Internal Revenue Service. The Company does not provide for any matching contributions on the employee deferred amounts.

14. Commitment and Contingencies

Operating Leases

The Company holds a minority interest in Spyglass Tesla LLC (Spyglass), a corporation that owns and manages the building in which the Company maintains its corporate headquarters in Irvine, California. Spyglass is principally owned by two other members which are related parties of the Company. The Company accounts for its investment in the members' equity of Spyglass as a cost method investment which is recorded as an investment in related party in the accompanying consolidated balance sheets as of December 31, 2008 and 2007.

14. Commitment and Contingencies (continued)

Additionally, the Company has executed a noncancelable operating lease with Spyglass which expires in 2012. During the year ended December 31, 2007, the Company executed a sublease arrangement for a portion of this office space to Amtran. Rental expense under this operating lease was approximately $743,000 and $661,000 for the years ended December 31, 2008 and 2007, respectively.

Future annual minimum lease payments at December 31, 2008 consist of the following:

	Gross Payments	Sublease Income	Net Payments
2009	$ 948,574	$ (50,400)	$ 898,174
2010	994,594	(50,400)	944,194
2011	1,040,429	(50,400)	990,029
2012	87,022	(4,200)	82,822
Total	$ 3,070,619	$ (155,400)	$ 2,915,219

Other Matters

The Company is involved in claims, legal actions and complaints arising in the normal course of business. Although the ultimate outcome of the matters are not presently determinable, management believes that the resolution of all such pending matters will not have a material adverse effect on the Company's consolidated financial position, results of operations or cash flows.

During the year ended December 31, 2007, the Company received correspondence from the Federal Communications Commission (FCC) requesting information on its compliance with a certain rule governing the implementation of V-Chip technology in televisions sold by the Company. Subsequent to December 31, 2007, a Consent Decree was entered into between the Company and the FCC in which the Company agreed to make a voluntary contribution of $370,000 regarding the implementation of V-Chip technology. The Company's supplier agreed to absorb the cost of the $370,000 contribution and, therefore, the Company is indemnified by its supplier.

During the years ended December 31, 2008 and 2007, the Company was engaged in, and in certain cases, settled various patent infringement claims and lawsuits related to the alleged unauthorized use of certain television technology which were initiated by a few large television manufacturers such as Zenith Electronics Corporation, and other non-manufacturers such as Thomson Licensing LLC, Gemstar-TV Guide International, Inc. and Guardian Media

14. Commitment and Contingencies (continued)

Technologies, Ltd. In order to resolve these matters, the Company has entered into or may enter into license arrangements which provide for royalty payments to be made for historical and prospective product sales which include the patented technology. In connection with these license arrangements, the Company recorded an aggregate accrual of $27,691,816 and $13,261,165 for all historical product sales subject to these royalties as of December 31, 2008 and 2007, respectively. Additionally, to the extent the Company is indemnified under its product supply agreements with its suppliers, the Company has also recorded amounts as other receivable balances as of December 31, 2008 as the suppliers have a legal obligation to reimburse the Company for these costs. Any patent infringement lawsuits in which the Company is not indemnified are expensed in the period incurred.

The Company anticipates that it will be subject to various patent infringement cases in the future due to the nature of the consumer electronics industry. The Company intends to vigorously defend its position regarding all patent infringement claims; however, the ultimate outcome of such claims may remain unknown for some time. Based on all information received to date, the Company does not believe that there are any claims that will have a material impact on the consolidated financial position, results of operations or cash flows for the year ended December 31, 2008.